Your notes

GCSE Business: revision notes

Financial statements and ratios

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The income statement

- An **income statement** shows a business's revenue, costs and profit over a period, usually a year.
- Revenue – **cost of sales** = gross profit. Gross profit – operating **expenses** (and interest) = net profit.

Profitability ratios

- **Gross profit margin** (%) = gross profit ÷ revenue × 100. **Net profit margin** (%) = net profit ÷ revenue × 100.
- Example: revenue £200,000 and **cost of sales** £120,000 give gross profit of £80,000, a **gross profit margin** of 40%. After £50,000 of **expenses**, net profit is £30,000, a net profit margin of 15%.
- Higher margins are usually better. Compare them over time and with competitors.

The statement of financial position

- A **statement of financial position** (balance sheet) shows what a business owns (**assets**) and owes (**liabilities**) at a point in time.
- Non-current **assets** include buildings and machinery. Current **assets** include cash, stock and money owed by customers. Current **liabilities**, due within a year, include overdrafts and money owed to suppliers. Non-current liabilities include long-term loans.

Using financial information

- Owners, managers, investors and lenders use financial statements to judge performance, compare with competitors and earlier years, and decide whether to invest or lend.

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Key terms

Income statement	A financial statement showing revenue, costs and profit over a period.
Cost of sales	The direct cost of the goods a business has sold.
Gross profit margin	Gross profit as a percentage of revenue.
Net profit margin	Net profit as a percentage of revenue.
Expenses	Costs that aren't part of cost of sales, such as rent and salaries.
Assets	Things a business owns, such as machinery and cash.
Liabilities	Things a business owes, such as loans.
Statement of financial position	A statement of what a business owns and owes at a point in time.

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. What does an income statement show?
2. How is the gross profit margin calculated?
3. Revenue is £200,000 and gross profit is £80,000. What is the gross profit margin?
4. Revenue is £200,000 and net profit is £30,000. What is the net profit margin?
5. How is net profit calculated?
6. What is cost of sales?
7. What is an asset?
8. What is a liability?

Answers

1. Revenue, costs and profit over a period
2. Gross profit divided by revenue, multiplied by 100
3. 40%
4. 15%
5. Gross profit minus operating expenses
6. The direct cost of the goods sold
7. Something a business owns, such as machinery
8. Something a business owes, such as a loan

What to do next

Practise 12 questions on this topic

Try 4 exam questions, with mark schemes

Read the lesson, one step at a time

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